MULTIMEDIA UNIVERSITY

MULTIMEDIA UNIVERSITY

FINAL EXAM

TRIMESTER 1, 2022/2023 (TERM ID 2210)

BFN3064 – ENTREPRENEURIAL FINANCE

(All sections / Groups)

11TH FEBRUARY 2023
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of EIGHT (8) printed pages (including cover page) with FOUR (4) questions.

2. Answer **ALL** questions. Marks are shown at the end of each question.

3. Please write all your answers in the Answer Booklet provided.

Answer all questions in the answer booklet provided.

QUESTION 1 (25 MARKS)

a) Discuss the five stages of the life cycle of a successful venture.
The five stages are Development stage, Startup stage, Survival stage, Rapid-growth stage, and Early-maturity stage. **(10 marks)**

b) In the venture life cycle, moving from the development stage to the startup stage frequently begins with the preparation of a business plan. Describe a business plan and explain why it is important to prepare it. **(7 marks)**

c) Discuss the key elements of a typical business plan. **(8 marks)**

QUESTION 2 (25 MARKS)

a) Given the following Income Statements and Balance Sheets for NetCare Sdn Bhd, for 2020 and 2021 solve the following questions.

NETCARE SDN BHD		
Income Statement	**2020**	**2021**
Net Sales	RM900,000	RM1,500,000
Cost of Goods Sold	540,000	900,000
Gross Profit	360,000	600,000
Marketing	90,000	150,000
General & Administrative	250,000	250,000
Depreciation	40,000	40,000
EBIT	-20,000	160,000
Interest	45,000	60,000
Earnings Before Taxes	-65,000	100,000
Income Taxes	0	25,000
Net Income (Loss)	-RM65,000	RM75,000

Continued...

Balance Sheet	2020	2021
Cash	RM50,000	RM20,000
Accounts Receivables	200,000	280,000
Inventories	400,000	500,000
Total Current Assets	650,000	800,000
Gross Fixed Assets	450,000	540,000
Accumulated Depreciation	-100,000	-140,000
Net Fixed Assets	350,000	400,000
Total Assets	RM1,000,000	RM1,200,000
Accounts Payable	RM130,000	RM160,000
Accruals	50,000	70,000
Bank Loan	90,000	100,000
Total Current Liabilities	270,000	330,000
Long-Term Debt	300,000	400,000
Common Stock (RM0.05 par	150,000	150,000
Additional Paid-in-Capital	200,000	200,000
Retained Earnings	80,000	120,000
Total Liability & Equity	RM1,000,000	RM1,200,000

i. Compute the current ratio, the quick ratio, and the net working capital (NWC) to total assets ratio for 2020 and 2021 for NetCare Sdn Bhd. **(6 marks)**

ii. Compute NetCare's cash build for 2021. **(3 marks)**

iii. Compute NetCare's cash burn for 2021. **(5 marks)**

iv. Determine whether the company has a net cash build or net cash burn for 2021. **(2 marks)**

b) Explain the cash burn and the implications of a high burn rate. **(5 marks)**

Continued...

c) You are provided with the data for Cahaya Terang company. Compute the cash conversion cycle for the company. **(4 marks)**

Income Statement	**RM**
Sales	20,500,600
Cost of Goods Sold	16,000,000
Balance Sheet	
Inventory	2,000,500
Accounts Receivable	1,500,800
Accounts Payable	1,200,000

Question 3 (25 marks)

a) MioSweet Dried Fruit is a new company which produces dry fruits. Given the following income statement of MioSweet Dried Fruit, you are asked to answer the following questions.

	RM
Net Sales	280,000
Cost of Goods Sold	(160,000)
Gross Profit	120,000
Administrative expenses	(55,000)
Marketing expenses	(55,000)
Depreciation	(30,000)
EBIT	(20,000)
Interest expenses	(15,000)
Income taxes	0
Net income/loss	(35,000)

The administrative expenses are a fixed cost in which MioSweet Dried Fruit pays for staff salary and commissions. The marketing expenses are also a fixed cost as it only involves advertisement and social media promoting charge. The cost of goods sold varies depending on the sales and the effective tax rate is 20%.

Continued...

i. Compute the survival breakeven amount for MioSweet Dried Fruit to achieve break even next year. Explain your result. **(7 marks)**

ii. If the selling price for 100g of dry fruits is RM10, explain the quantity to be sold (in gram) to achieve break-even point. **(4 marks)**

iii. If MioSweet Dried Fruit needs to raise more debt and the interest cost increased to RM20,000. Explain at which level of revenue the company can reach break-even. **(5 marks)**

b) A potential investor is seeking to invest RM500,000 in a venture, which currently has 1,000,000 million shares held by its founders and is targeting 50% return five years from now. The venture is expected to produce half a million dollars in income per year at year 5. It is known that a similar venture recently produced RM1,000,000 in income and sold shares to the public for RM10,000,000.

i. Compute the number of shares that must be issued to the new investor for the investor to earn his/her target return. **(5 marks)**

ii. Compute the pre-money and post-money valuation. **(4 marks)**

Question 4 (25 Marks)

The news below is extracted from The Star Online. Answer the following questions.

Funding startups with venture capital
By B.K. Sidhu
Monday, 01 August 2022

VENTURE capitalists (VCs) are known to make risky bets backing startups and emerging companies/small businesses with long-term growth potential, some of which have turned into unicorns.
But VC money is not for the long term.

Normally, they have a 10-year horizon but by the fifth to seventh year, they are already in the divestment phase.

Continued...

By then, the VC should have made sizeable returns. Of course, not all bets on startups land VCs with handsome gains, as there have been failures too.

What a VC firm does is buy a stake into an entrepreneur's idea, nurtures it for a short period of time and then exits with the help of an investment banker, said a report.

Their preference is for tech-focused companies with the spectrum getting wider over time to include climate tech, electric vehicle manufacturers, renewable energy, female technology, space technology, health technology, financial technology, eCommerce and even cryptocurrencies.

Ficus Capital executive director Abdullah Hidayat said there was growing interest in startups that have the environmental, social and governance or ESG element ingrained as part of their business and even those that are syariah-compliant

.

"We believe in the coming years, businesses that have good governance and give a positive impact to the community as well as the environment will thrive," he said.
If you are thinking of getting funding from a VC, then you need to ensure you have a saleable idea and a fundable company.

The VCs will do their due diligence as they are accountable to their investors. VCs invest in startups for capital gains and dividends.
VC's normally charge a 2% management fee per annum and split the capital gains on the ratio of 20:80 with their investors.
VCs in Malaysia are regulated by the Securities Commission (SC).

"The main motivation for VCs to invest in early-stage companies is to make huge price gains. Typically, in the VC world, the price return is calculated in multiples, ie, invest RM1mil in a company and sell the investment at RM3mil in three years," Abdullah said.
He added that VC is really a long-term game for any (individual) investor to consider, as it provides the potential of having very handsome returns, which can be more than 15% per year and sometimes as high as 50% per year.

There are many ways for individuals to build wealth and make their money work for them. There are safe and risky instruments out there.

A lot depends on a person's risk appetite. A diversified portfolio is preferred as it allows a person to spread their risks. High-net-worth individuals have wider investment options. Investing into VC funds is an option, but one has to be a "sophisticated investor" to do so.

Continued...

"The minimum amount that an individual investor can invest into a VC fund is about RM250,000. However, some VCs put it higher at RM500,000 and others, lower at RM100,000.

"It all depends on the constitution of the fund and the 'know your customer (KYC)' guidelines as they need to show that those who invest are sophisticated investors,' he added.

VC, just like private equity (PE), falls under higher risk investment instruments which are governed by the SC. The SC has outlined that only sophisticated investors can invest in VCs.

However, with recent developments in equity crowdfunding (ECF), there is an opportunity for individual investors to invest in VCs via the ECF Microfund. Abdullah said the investment can be as low as RM25,000 per person.

Each VC has its own set of risk/return perspectives. Both companies and individuals investing in VC funds are eligible for some tax deduction benefits.
Last year, the total committed funds in Malaysia for PE and VC stood at RM14.83bil, according to the SC.

In South-East Asia, VCs have been funding growth opportunities in the technology eco-system and startups raised US$25.7bil (RM114.38bil) last year, doubling that of 2020, a report said.

There are many local startups in the country that have been funded by VCs. Some have turned into unicorns, including Carsome and Grab.

HSBC and KPMG in the recent report "Emerging Giants in Asia Pacific" identified 100 leading emerging giants in Asia Pacific. This includes Malaysia's Boost Holdings, Exabytes, Jirnexu, Presto Mall, Neurogine and PolicyStreet.

Abdullah believes the outlook of the VC market in the country is promising, as there is a growing trend among graduates to opt to start their own business instead of working for others and VC funding is an option for them.

Global VCs are still raising a lot of funds to invest in startups, including those from South-East Asia. Even with so much money from VCs, failures are to be expected.

(Source: The Star, 2022)

Continued...

a) Explain venture capital. **(4 marks)**

b) Differentiate between venture capitalist and private equity by discussing three points. **(9 marks)**

c) Explain the exit strategies and the common exit strategies for start-ups. **(6 marks)**

d) Based on your opinion, what are the two possible challenges faced by the venture capitalist industry in Malaysia? **(6 marks)**

End of Page